

Memorandum

*Flex your power!
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To: KARLA PETERS
Service Contract Analyst
Division of Procurement & Contracts

Date: March 28, 2008

File: P1400-2687

From: MARYANN CAMPBELL-SMITH
Chief, External Audits
Audits and Investigations

Subject: Postaward Audit – S2 Engineering, Inc.

We have audited S2 Engineering, Inc.'s (Consultant) proposed costs under Agreement No. 08A1483 with the Department of Transportation (Department) to determine whether the proposed costs are reasonable in relation to actual historical costs and estimating procedures, and whether the Consultant's financial management system is adequate to accumulate and segregate reasonable, allocable and allowable project costs. We also reviewed the contract to assess whether the required fiscal provisions are included.

The Consultant management is responsible for the fair presentation of the proposed costs, ensuring compliance with contract provisions and state and federal regulations, and that the financial management system maintained by the Consultant is adequate to accumulate and segregate reasonable, allocable and allowable costs.

Our audit was conducted in accordance with the Performance Standards set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the Consultant. Therefore, we did not audit and we are not expressing an opinion on the Consultant's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and the records audited are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records selected. It also includes assessing the accounting principles used and significant estimates made by the Consultant management, as well as evaluating the overall presentation.

The Consultant shall perform professional and technical material testing services on an as needed basis to support the development and construction of proposed State transportation facilities in Riverside and San Bernardino Counties. The total amount

of this agreement shall not exceed \$8,400,000. Reimbursement is to be made at specified hourly rates to the following Consultants:

S2 Engineering, Inc. (Prime) ^
Kleinfelder, Inc. *
Geo Environmental, Inc. *
TGR Geotechnical, Inc. *

^ - Limited scope audit performed.

* - Audit waived.

The scope of the audit was limited to financial and compliance activities related to the above referenced agreement. The audit consisted of verifying the proposed costs and an assessment of the accounting principles used, and significant estimates made by the Consultant; as well as, an evaluation of compliance with Code of Federal Regulations (CFR) 49, Part 18 and CFR 48, Chapter 1, Part 31. A limited scope audit was performed on the Consultant. We reviewed the agreement, interviewed applicable personnel, and performed limited tests on the Consultant's financial management system and proposed costs as of October 25, 2007. Financial management system and cost proposal changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We did not audit or examine the proposed indirect rates since a postaward audit is significantly less in scope than an incurred cost audit or examination. We reviewed the proposed indirect rates for the purpose of accepting contract progress billings.

Due to inherent limitation in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any audit of the financial management system to future periods are subject to the risk that the financial management system may become inadequate due to changes in conditions, or the degree of compliance with policies and procedures may deteriorate.

The results of the audit were communicated to Sagar Pandey, Owner, S2 Engineering, Inc. and Masud Zahedi, Department Contract Manager, on December 6, 2007; and to you and John Neri, Department Contract Negotiator, on March 27, 2008. The findings take into consideration information provided by the Consultant as of October 25, 2007. The Consultant concurred with all findings and recommendations. Our findings and recommendations are set forth in the Attachment to this report.

CONCLUSION

Based on our audit work, we found the required fiscal provisions are included in the agreement. In addition, the Consultant's proposed costs are reasonable in relation to actual historical costs and estimating procedures and the Consultant's financial

management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs, except as noted in the Attachment to this report.

This report is intended solely for the information of the Department and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited.

Please forward a copy of the revised agreement and cost proposal to Audits and Investigations. If you have any questions, please contact Linda Laubinger, Audit Manager, at (916) 323-7957.

ORIGINAL SIGNED BY:

~~Lisa~~ Moreno
Auditor

Approved:

ORIGINAL SIGNED BY:

MARYANN CAMPBELL-SMITH
Chief
External Audits

Attachments

c: Jan Smelser, Chief, DPAC
Masud Zahedi, Consultant Services Unit, D8
P1400-2687

ATTACHMENT
Postaward Audit Findings and Recommendations
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Cost Proposal

Finding 1

Mathematical errors for the subconsultant, Kleinfelder, were identified for the following individuals:

Short Duration Southern California (Prevailing Wage Rates Proposed)

Rick Bell	OT(2x)
Ruben Roque	OT(2x)
Supervisory Technician	OT (2x)

Long Duration Southern California (Prevailing Wage Rates Proposed)

Rick Bell	OT(2x)
Ruben Roque	All OT
Supervisory Technician	All OT

Long Duration Southern California (Non Prevailing Wage Rates Proposed)

Supervisory Technician	All OT
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Recommendation: We recommend the cost proposal be recalculated to show correct billing rate.

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S2 Engineering, Inc.

Finding 1

The following proposed classifications have not yet been filled and should be verified to the following rates when individuals are identified:

Project Manager	\$60.00-76.00
Materials Tester	\$43.84-45.51

Recommendation: We recommend the rates of individuals are verified and paid at actual when individuals are hired.

Finding 2

The proposed labor range for the Field Office Assistant classification could not be verified.

Recommendation: We recommend the hourly rate be verified and paid at actual when employees are hired.

Finding 3

The proposed indirect rate of 166 percent is overstated. The evaluated rate is 136.42 percent for fiscal year ending December 31, 2006.

Recommendation: We recommend the cost proposal be revised to reflect the evaluated indirect rate of 136.42 percent.